

E-002/M-89-795 ORDER EXTENDING AUTHORITY FOR TWO YEARS AND  
REQUIRING FURTHER FILINGS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner
Norma McKanna	Commissioner

In the Matter of Northern States  
Power Company's Proposed Area  
Development Rider

ISSUE DATE: AUGUST 26, 1992

DOCKET NO. E-002/M-89-795

ORDER EXTENDING AUTHORITY FOR  
TWO YEARS AND REQUIRING FURTHER  
FILINGS

**PROCEDURAL HISTORY**

On September 18, 1989, Northern States Power Company (NSP or the Company) filed a proposal for an Area Development Rider (ADR). On December 28, 1989, NSP filed a modified version of the ADR.

On April 4, 1990, the Commission issued its ORDER SUSPENDING PROPOSED TARIFF in the above-captioned docket. In that Order the Commission found that it was advisable to await the passage of forthcoming ADR legislation before deciding on the merits of NSP's proposal. Shortly after deliberations for the April 4 Order, the ADR legislation was passed into law as Minn. Stat. § 216B.161 (1990).

On April 18, 1990, NSP submitted a revised ADR petition intended to conform to the new statute.

On June 28, 1990, the Commission issued its ORDER APPROVING TARIFF. In that Order the Commission approved NSP's ADR proposal on a two year pilot basis. Under NSP's plan, the ADR program would be implemented in four area development zones in Minneapolis and St. Paul. The Commission ordered NSP to file annual reports which would include specific information on incremental cost, evaluation criteria, and other filing requirements.

The Commission issued its ORDER APPROVING MODIFICATION OF PLAN AND REQUIRING FURTHER FILING on January 15, 1992. In that Order the Commission approved the expansion of NSP's ADR project into a fifth zone, located in South St. Paul. The Commission also ordered the Department of Public Service (the Department) to file comments on the effectiveness of the ADR rate within 30 days of the filing of NSP's second annual ADR report.

NSP filed its second annual ADR report on June 25, 1991. In the report NSP requested that the Commission reauthorize the ADR plan on a permanent basis. The Company proposed a set of criteria by which the Commission might guide the administration of a permanent ADR program. Among other things, the criteria would allow up to ten active ADR zones at any given time, with a maximum of three zones for any single community.

On July 14 and 27, and August 6, 12 and 18, 1992, comments in support of NSP's ADR program were filed by the Minneapolis Chamber of Commerce, the St. Paul Chamber of Commerce, the Minneapolis Community Development Agency, the Port Authority of the City of St. Paul and the City of St. Paul.

On July 27, 1992, the Department filed comments regarding NSP's second annual report and the effectiveness of the ADR program. The Department recommended that the Commission discontinue NSP's ADR program.

The matter came before the Commission for consideration on August 20, 1992.

## **FINDINGS AND CONCLUSIONS**

### **The ADR Statute**

Minn. Stat. § 216B.161 requires the Commission to order at least one public utility to establish a pilot ADR program to assist industrial revitalization projects within the utility's service area. The pilot program must be for at least two but no more than five years, must be in addition to other community development incentives, and must be available only to new or expanding manufacturing or wholesale trade customers. The statute requires the Commission to evaluate the impact and effectiveness of any ADR plans implemented. Within 60 days after the expiration of a plan, the Commission must determine whether the plan should be continued, modified or eliminated. Finally, the Commission must submit its findings regarding the ADR plans to the legislature by January 1, 1995.

### **Positions of the Parties**

NSP argued that the ADR program should be reauthorized because the program does not harm existing ratepayers, contributes to the efficient use of physical infrastructure where significant public and private investments have already been made, and promotes the redevelopment of underutilized industrial zones. NSP argued further that the ADR program generates rate revenue in excess of the total incremental cost to serve the ADR customers, and thus provides a net benefit to ratepayers. The Company reasoned that

its ADR program fulfills legislative intent by directing redevelopment to a limited number of specific geographic areas, even though other nontargeted parts of NSP's service area might otherwise have been chosen. NSP stated that its business retention efforts must be considered as a supplement to other community development incentives, not as the sole causative factor for business site decisions.

The Department argued that NSP's plan should be discontinued because NSP has not proven that it has fulfilled the legislative goal of business revitalization. The Department noted that all nine of the customers who partook of NSP's ADR alternative came from other parts of the Company's service area. The agency therefore reasoned that NSP's ratepayers received no overall benefit. The Department also argued that the ADR was ineffective because most customers indicated that the ADR rate was not a primary factor in their relocation decision.

For these reasons, the Department recommended that the ADR program be discontinued. If the Commission did not choose to halt the program, the Department recommended that the program be extended for a limited period so that the Commission may assess it more thoroughly.

The Minneapolis and St. Paul civic organizations supported the reauthorization of NSP's ADR program. The groups argued that the program has fulfilled its purpose of business retention and industrial revitalization in especially difficult economic times. They urged the Commission to keep the program in place so that economic opportunities may be maximized in stagnant and decaying inner city areas.

#### **Commission Action**

The Commission finds that NSP has supplied sufficient data to support the continuation of its ADR program. Since the commencement of the program in June, 1990, nine companies have been placed on the ADR rate. The nine ADR customers have made capital investments in plant and additional equipment of about \$14.6 million. The companies employ about 367 persons and will pay annual property taxes of about \$500,000. NSP has supplied figures which show that revenues generated by these companies cover the incremental cost of service.

The Commission will limit the reauthorization of NSP's ADR program to a two year period. The Commission notes that the pilot program has existed in a period of economic recession. While the number of participating companies has not been large, this may be at least in part due to a stagnant economy. The economy is now showing some signs of recovery; this may provide the Commission with a more representative economic background by which to judge the program's merit. Also, as more fully

discussed below, the program will be somewhat expanded under NSP's proposed zone designation criteria. The Commission therefore finds that two years of expanded evaluative data should be sufficient for the Commission to assess the program's effectiveness and to provide a complete report to the legislature.

The Commission recognizes that the nine participating companies were located in other parts of NSP's service territory prior to their participation in the ADR program. Ideally, an ADR program would attract new companies, perhaps from outside the state, to locate in the area development zone. The Commission feels, however, that the legislative intent can be sufficiently fulfilled by a relocation within a utility's service area. According to Minn. Stat. § 216B.161, an ADR program is meant to "assist industrial revitalization projects located within the service area of the participating utility." The statute defines an area development zone as a territory in which exist "obsolete buildings not suitable for improvement or conversion or other identified hazards to the health, safety, and general well-being of the community," "buildings in need of substantial rehabilitation or in substandard condition," and "low values and damaged investments." These statutory passages clearly indicate legislative recognition of the social value of investment in the inner city. The statutory indicators support the notion of a balancing when relocation within a utility's service area occurs. If an ADR program results in the retention or expansion of jobs and infrastructure within targeted areas, even though the growth may come from other parts of the utility's service area, the Commission may find that the ADR program is worthwhile. After examining NSP's program through this legislative perspective, the Commission is sufficiently convinced of the value of NSP's program to authorize its extension.

The Commission finds that the zone designation criteria proposed by NSP will be helpful guidelines in any further expansion of ADR programs. The Commission will adopt NSP's designation criteria as found on Attachment A to this Order.

To assist the Commission in its evaluation of NSP's ADR program, the Commission will require the Company to continue filing annual reports. The Commission urges the Company to strive for more specific evaluative data for program effectiveness. The Company should also include information regarding its efforts (such as advertising) to recruit businesses from outside Minnesota into the targeted zones.

ORDER

1. NSP's ADR program is reauthorized and extended for a period of two years, incorporating the designation criteria found at Attachment A to this Order.
2. Beginning on July 1, 1993, NSP shall continue to file annual reports on its ADR program, including the information specified in the Commission's June 28, 1990 Order in this docket.
3. The Department shall review NSP's annual filings. The Department shall submit comments on the effectiveness of the ADR rate within 30 days of the filing of NSP's second annual report, unless the Department finds it necessary to submit comments prior to that time.
4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster  
Executive Secretary

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